Committee on Ways and Means

The American Jobs Creation Act of 2003

$100 Billion Of Tax Relief For U.S. Manufacturers

Key provisions for manufacturing and their total tax relief:

- **32% corporate rate ($19.5 billion in total tax relief).** The new 32% tax rate is a tax cut for all small and mid-sized companies with taxable income of less than $10 million. This provision will be particularly beneficial for manufacturing as Congressman Manzullo's recent Dear Colleague stated that 95% of manufacturers are small or mid-sized businesses. ***In fact, 99.7% of corporations will have a top tax rate of no more than 32%.***

- **AMT relief ($17 billion).** The National Association of Manufacturers calls AMT the "Anti-Manufacturing Tax." Although we can't fully repeal the alternative minimum tax, the modifications will virtually eliminate AMT for manufacturers. The bill does the following:

  - Doubles size (from $7.5 million to $15 million) of companies exempt from AMT.
  - Eliminates the 90% limitation on the use of net operating losses against AMT.
  - Eliminates the 90% limitation on the use of foreign tax credits against AMT.
  - Reduces the AMT depreciation adjustment by 50%.

- **R&D tax credit ($23 billion).** Manufacturers receive over 80% of the R&D tax credit. Because R&D (and the R&D tax credit) are vital to the manufacturing sector, the R&D tax credit is expanded and extended for 3 ½ years.

- **Manufacturing depreciation ($34.5 billion).** The provision allows manufacturers to write off the cost of their investments faster. ***The tax savings from this proposal go exclusively to U.S. domestic manufacturers.***

- **Bonus depreciation ($12 billion).** Manufacturers benefit from bonus depreciation through (1) accelerated depreciation on the goods they employ in the manufacturing process and (2) increased sales to customers that purchase manufactured goods. Given that bonus depreciation provides a double benefit to manufacturers, this year's bill extends the 50% bonus depreciation for one year (through December 31, 2005.)

- **Section 179 expensing ($2 billion).** The ability of small manufacturers to expense (immediately deduct) capital purchases enables them to expand their businesses. Additionally, the ability to expense the purchase of manufactured goods causes an increase in the purchase of manufactured goods. For these reasons, the Growth bill section 179 expensing provision that increased the amount of property that small businesses can expense from $25,000 to $100,000 is extended for two years (through December 31, 2007).

- **NOL carryback ($5 billion).** The current downturn in the economy has caused the manufacturing sector, more than any other, to incur financial losses. The NOL provision will allow manufacturers to carryback their 2003 losses for five years and get refunds of prior tax payments. The refunds will help manufacturers through the downturn and enable them to invest in their businesses and retain and hire workers.

- **Repatriation ($3 billion).** The Joint Committee on Taxation and a J.P. Morgan Study state that the repatriation provision will result in between $100 billion and $350 billion in foreign earnings being brought back to and invested in the U.S. economy. A substantial portion of this money will be invested in U.S. manufacturing plants and equipment and U.S. manufacturing job retention and expansion.

- **Multinational reforms.** Assistant Treasury Secretary for Tax Policy Pam Olson, in her July 15, 2003 testimony before the Senate Finance Committee, stated that making the U.S. international tax rules competitive will lead to increased sales, increased U.S. domestic manufacturing to support those sales, and increased U.S. jobs.

  Enhancing the ability of U.S. companies to compete in the global marketplace will increase, rather than decrease, U.S. jobs and U.S. production. Glenn Hubbard, Chairman of the Council of Economic Advisors, in his June 13, 2002 testimony before the Select Revenue Subcommittee, stated that each dollar of foreign investment results in two dollars of ***additional*** exports of U.S. domestically manufactured goods.

  During the June 13th hearing, Glenn Hubbard also testified that foreign acquisitions of U.S. companies eventually lead to the exportation of good, high paying U.S. jobs and U.S. research and development.

  The bill contains a number of provisions to make U.S. companies more competitive in the global market, resulting in an increase in U.S. manufacturing and U.S. manufacturing jobs. The bill also will reverse the destructive explosion of foreign companies acquiring U.S. companies and keep U.S. jobs, production, and research in the United States.